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RUEATRS/DEPT OF TREASURY WASHDC

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E.O. 12958: N/A
TAGS: EFIN ECON CY
SUBJECT: CYPRUS: LAIKI PLANS FOR MERGER WITH GREEK MARFIN AND EGNATIAS ON TRACK

REFS: (A) NICOSIA 1868, (B) NICOSIA 1600, (C) NICOSIA 1092

(U) This cable is sensitive but unclassified. Please treat accordingly.

¶1. (SBU) Summary. The triple merger between Laiki Bank in Cyprus, and Greek-based Marfin Financial Group and Egnatias Bank remains firmly on track, after winning the approval of authorities in both countries, and of Laiki shareholders on October 31. Unless there are any unexpected surprises, the new entity should start trading in the Greek and Cypriot stock exchanges by mid-January 2007. This merger promises to facilitate ever-closer ties between Greek and Cypriot banks, facilitating the expansion of both into the Balkans and the Middle East. End Summary.

Background on Laiki

¶2. (U) The Cyprus Popular Bank, or Laiki as it is known locally, is the second-largest bank in Cyprus. At the end of 2005, the total assets of the Group amounted to CYP 7.1 billion (USD 15.3 billion). The Group employs 3,578 people globally and operates 185 branches in five countries (114 in Cyprus, six in the United Kingdom, 55 in Greece, nine in Australia and one on Guernsey) and has representative offices in Moscow, Belgrade, New York, Toronto, Montreal and Johannesburg. Profits attributable to shareholders reached CYP 42.7 million (USD 91.8 million) in 2005, recording an increase of 103 percent over the previous year.

Turbulent Summer for Cypriot Banks

¶3. (U) The Laiki-Marfin-Egnatias merger follows a turbulent summer in Cypriot banking which included an aborted attempt by the Bank of Cyprus to acquire the Greek Bank Emporiki -- which ended in fiasco -- interest shown by another Greek Bank (Piraeus) to purchase the Bank of Cyprus, HSBC selling its minority share in Laiki, and the Chairman of both the Bank of Cyprus and Laiki unceremoniously getting the boot (refs. b and c.) The merger demonstrates the growing attractiveness and internationalization of Cypriot banks following their full recovery from the 1991-2001 Cyprus Stock Exchange boom and bust cycle (ref a). It also is symptomatic of a trend toward increased professionalism in Cypriot banking, once seen as primarily consisting of "hereditary fiefdoms."

¶4. (U) The new entity, to be called Marfin Popular Bank, will have total assets of 22.3 billion Euro (USD 28.1 billion), deposits of 11.7 billion Euro (USD 14.7 billion) and loans of 15.8 billion Euro (USD 20 billion). The group's own assets will reach 3.3 billion Euro (USD 4.1 billion) and its capitalization will reach 4.3 billion Euro (USD 5.4 billion). It will have a network of over 300 branches in 13 countries and a capital adequacy ratio of 17.7 percent, giving

it plenty of cash to invest. In Cyprus, Laiki is expected to maintain its position as the second-biggest player.

Approval Not Without Controversy

¶5. (SBU) Laiki's shareholders were asked to vote on the merger on October 31 -- a week later than planned -- to allow the Cypriot Competition Protection Commission an extra week to review final details. Securing the support of Laiki's shareholders for this deal was not without controversy. Former Laiki Chairman Kikis Lazarides, who had led the Bank for over 30 years, led charges that Marfin and Egnatia's shares were being grossly overvalued, putting all the risk of the merger clearly on Laiki and its shareholders. Lazarides also accused Marfin's outspoken CEO and Vice President, Andreas Vgenopoulos, of having the most to gain from the merger and of trying to gain his (Lazarides's) support through bribery and blackmail. Subsequent to Lazarides's removal this summer, Laiki opened an investigation into his financial practices, which Lazarides claimed had to do with unfounded and alleged exorbitant overdrafts on his son's account. After a much-publicized and ugly exchange of insults, however, Vgenopoulos remained the only one standing.

¶6. (SBU) Ironically, it is Lazarides who is widely credited for having brought in Vgenopoulos and Marfin as a way to replace HSBC's minority stake, once the British Bank decided to cut its long-standing relationship with Laiki. The reasons for HSBC's departure are unclear but rumors include its growing frustration with being unable to control Lazarides, its frustration with the alleged non-performance of a large outstanding loan of CYP 90 million to a major Laiki stockholder -- and feared difficulties arising over HSBC's control of several branches in the Turkish Cypriot community -- and on land belonging to Greek Cypriots displaced in 1974 -- which it inherited after it took over a Turkish

Bank earlier this decade.

¶7. (U) Laiki's main shareholders (Marfin with 13-15 percent, Tosca Fund 8.18 percent, the Lanitis family 8.67 percent, Laiki Employees' Provident Fund 5.66 percent and Laiki Cypria Life 1.7 percent) had been supportive of the deal from its inception. Led by Vgenopoulos, the large shareholders managed to win the support of the overwhelming majority of 1,200 smaller shareholders who attended the meeting, securing approval of the merger. In order to finance the deal, Laiki will increase its share capital to CYP 1.4 billion (USD 3.0 billion), issuing 465.4 million new shares. The new issue will increase Laiki's total shares to 822.9 million.

Merger Likely to Go Through

¶8. (U) With all requisite authorities in both Greece and Cyprus having given the green light, and Laiki shareholders already on board, the only thing that stands between materialization of this merger is the concurrence of Marfin and Egnatias shareholders. Given that the terms of the merger are particularly favorable for Marfin and Egnatias, it is considered a near certainty that their shareholders will quickly rubberstamp the deal. Marfin and Egnatias shareholders have until COB December 21, 2006 to file their acceptance statements to the National Bank of Greece.

Good Omens

¶9. (U) If all goes well, the shares of the new entity should start trading on both the Cyprus Stock Exchange and Athens Stock Exchange in mid-January 2007. As reported Ref A, the two exchanges have been operating on a joint platform since October 30, 2006. Enthusiastic buying of the shares of all three component firms on the two exchanges reflects a strong "thumbs up" signal by the market.

¶10. (U) International credit rating firms, including Moody's and UBS, have also been positive about the three-way merger. The latest report by UBS noted that the bid successfully addressed Laiki's key strategic issues of scale, geographic and product exposure, while providing material uplift to the bank's positioning within Greek banks, significantly improving its growth and strategic flexibility. UBS reiterated a price target for Laiki's share at Euros 7.31 (USD 9.20) with a Buy 2 recommendation. The stock currently trades at around Euro 6.60 (USD 8.35). UBS expects price gains for the new

entity of 23 percent in 2007 and 11 percent in 2008.

¶11. (U) Comment: Analysts in Cyprus are generally positive about this merger. Marfin's steady buying of Laiki's shares prior to the merger, which has increased Marfin's stake in Laiki to around 15.2 percent, has been welcomed by local analysts, as it reflects Marfin's sincere commitment to make this merger work. The key now is to ensure smooth integration of the three banks in Greece. Cypriot banking, and the local economy in general, has a lot riding on this venture. End Summary.

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